

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Syria

### Cotton and Products Annual

### Annual Cotton Report

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**Report Highlights:**

Syria's 2010-2011 cotton crop is estimated at 470,000 metric tons of seed cotton grown on 125,000 hectares, much smaller than the previous crop. Lint production is estimated at 160,000 tons. Yarn spinning capacity is estimated at 180,000 tons. Cotton lint exports have practically stopped. In 2011-2012, the Cotton Bureau plans to produce about 711,000 MT of seed cotton (about 242,000 MT of cotton lint) from 183,000 hectares.

**Executive Summary:**

Cotton production is controlled to a great extent by the Cotton Bureau of the Syrian Ministry of Agriculture and Agrarian Reform. The Cotton Bureau sets the total planted areas and encourages early planting and harvesting of seed cotton. When irrigation water is not a constraint and seed cotton procurement prices were reasonable and provided a good profit margin to the producers, farmers exceeded the licensed areas and the crop exceeded one million tons of seed cotton. During the last few years, farmers did not plant the planned areas due to water constraints, increasing cost of production, and low procurement prices. The government sets the prices for buying seed cotton from the farmers. The price was increased 2008, but the increase was not considered to be high enough, especially when diesel prices were increased by 257 percent in May 2008. Fertilizer prices were liberalized in 2009, adding very much to the cost of production. The 2010-2011 crop is estimated at 470,000 MT of seed cotton. This is 30 percent below the production plan. Cotton lint production is estimated at approximately 160,000 MT. Abnormal weather conditions as well as the cotton boll worm infestation in some areas affected the final crop size. Spinning facilities are sufficient to process this small crop. Farmers consider the procurement prices for seed cotton to be low after the increase in the cost of production and the big increase in international cotton prices. Syria plans to plant enough cotton in the future to run its spinning mills. The government is paying a special bonus to compensate farmers who run their irrigation pumps on diesel. Another bonus is also paid to compensate farmers for the increase in the cost of fertilizers. Due to the drought during the fall of 2010 in North East Syria, some areas that were supposed to be planted with cotton were shifted to wheat production.

**Commodities:**

Cotton

**Production:**

Cotton is planted in the north, east, and central parts of Syria. Only upland cotton is produced in Syria. All cotton is irrigated, and no alternative crop during this period of year used to provide attractive returns in the past. The government set prices of 42 SP/Kg of seed cotton (89 cents/kg) is not considered to be good enough to provide an acceptable income to the farmers after the increase in diesel price in 2008 and fertilizer prices in 2009. The government had to give cotton producers a bonus if they use diesel to run their irrigation pumps and also another bonus to compensate them for the increase in the cost of fertilizers to keep them in cotton production. This is contrary to the old pricing policy when farmers used to exceed their licensed planting permits. The major planted varieties are Aleppo 40, which was developed by the Cotton Bureau in Aleppo, in the early eighties, and the more recently developed varieties Aleppo 90 (gradually replacing Aleppo 40), Aleppo 33/1, Aleppo 118, Raqa 5, and Deir-ez-Zor 22. The most common staple is 1 1/32" to 1 1/16". The Cotton Bureau is introducing new varieties especially for drought resistance and high temperature tolerance in certain parts of the country. Cotton is planted in April/May and harvested in September-December. The Cotton Bureau encourages early planting and harvesting by paying a higher price for early deliveries. In 2010-2011, cotton lint production is estimated at 160,000 MT produced from 125,000 hectares. This is 30 percent below the production plan. The big increase in diesel fuel cost and the liberalization of fertilizer prices in 2009

were the major reasons behind not fulfilling the production plan. The government offered to compensate farmers who pump irrigation water by using diesel run engines to give them an additional bonus of 2,500 Syrian pounds per dunum (532 dollars per hectare). The government is also paying cotton producers 800 Syrian pounds per dunum (170 dollars per hectare) to compensate for the increase in fertilizer prices. If the farmer does not sell his crop to the Cotton Bureau, he is not entitled to get the bonuses. CMO used to buy about 97 percent of the seed cotton crop in the past. Farmers usually keep 25,000-30,000 MT for their use and are usually ginned at private gins. Syrian cotton quality is considered to be of a high standard as the entire crop is handpicked. Abnormal weather conditions negatively affected the crop. The cotton boll worm infestation in some areas also reduced the crop size in 2010. Press reports talked about use of some fields for sheep grazing when the farmers realized they were unable to make a decent profit.

The CMO purchased about 440,000 MT of seed cotton from the 2010-2011 crop, 30 percent below the previous year's level. In addition to CMO purchases from the farmers, and the quantities kept by the farmers for their use, press reported smuggling of cotton to neighboring Turkey where the offered prices are 30 percent higher. The procurement prices for licensed areas for the 2010-2011 crop were kept at 42 SP per kilogram for seed cotton delivered by the middle of November 2010, and a lower price, 39 SP per kilogram, for seed cotton delivered after wards (bank exchange rate is currently 47 SP/USD, free market rate is about 47.50 SP/USD). This method of pricing encourages the farmer to plant early and harvest the crop as early as possible.

The Cotton Bureau plan for 2011-2012 has been set at producing 711,000 MT of seed cotton from 183,000 hectares. Cotton Bureau plans on the long run to produce enough cotton to provide raw materials for its spinning facilities, about 180,000 MT of cotton lint or 530,000 MT of seed cotton. Ginning mills can gin larger quantities of seed cotton. The ending stock level or prevailing high international cotton lint prices do not have any impact on the decision of area to be planted to cotton and the amount of seed cotton to be produced.

Cotton, among wheat and sugar beets, is considered a "strategic" crop in Syria because about 20 percent of the population are said to be involved in its production, processing, and trading in its byproducts. A significant amount of money is spent by the government to keep it in production. In a measure to encourage farmers to plant cotton, the government decided in April 2011 to increase the advance payment given to farmers before planting their fields from 2400 Syrian pounds per dunum (505 dollars per hectare) to 4900 Syrian pounds per dunum (1032 dollars per hectare) to pay for the seeds, fertilizers, and fuel.

It is helpful to know that due to the drought in North East Syria in the fall of 2010, the Ministry of Agriculture encouraged farmers to expand wheat production in irrigated areas on land that was devoted to other crops, mainly cotton.

### **Consumption:**

Domestic consumption of cotton from the 2010-2011 season is forecasted at 180,000 tons of cotton lint, of which approximately 160,000 MT are consumed by spinning facilities that are monopolized by the public sector. The private sector utilizes approximately 10,000 – 20,000 MT of lint for the production of mattresses, pillows, baby diapers, and other sanitary products. The difference between consumption and production this year will come from lint stocks that were not exported from previous seasons.

The government's goal is to increase production of cotton yarn and textiles and to increase exports of these products in lieu of cotton lint. The CMO usually sells cotton lint to the spinners at the international price, which is reset monthly. The Syrian government decided in April 2011 to sell cotton lint to the local consumers in the private and public sectors at prices 20 percent below international prices. Cotton yarn will also be sold to the local industries at prices 15 percent below international prices for the same yarn quality. This is intended to keep the prices of the final products at levels competitive with other major producers. The CMO markets cotton lint, when there is surplus. Selling prices of cotton lint, yarn, and textiles are not available. The increase in international prices of cotton lint and yarn caused a big problem to the Syrian end users. Textile manufacturers requested the government not to export any cotton yarn unless the local market demand is met.

According to private trade sources, the quality of the cotton yarn produced from the old spinning facilities requires much improvement. Such improvement cannot be achieved with the antiquated spinning facilities that are still running for the public sector monopoly since the 1960s. The government established five new modern spinning mills. Syria requires additional new mills to replace the old. The private sector is permitted to produce yarn from synthetic fiber. The private sector has been also permitted to spin cotton as a part of an integrated industry to produce garments from cotton lint.

Garments have been permitted to be imported, but their presence in the local market is still limited. The private sector produced 98 percent of underwear garments and over 99 percent of outer garments in 2009. Production levels in 2010 are not yet available, but are estimated to be close to the 2009 levels. The role of the private sector is increasing in the underwear production industry. According to the Central Bureau of Statistics, the production of under wears by the public sector decreased in 2009 as compared to 2008. Outer garment production by the public sector increased by 19 percent in 2009, as compared to 2008.

The Syrian textile industry is facing many difficulties, especially competition from the newly permitted to be imported Chinese products, the high cost of production, and the low purchasing power of the average Syrian. Many textile factories are reported to be closing down in Aleppo, the major cotton textile industrial city in North-Syria. Increasing fuel oil prices used on large scale in the yarn dying industry that is expected in August 2011 will negatively affect the cotton industry in Syria. Fuel oil prices will be liberalized by 2014.

#### **Trade:**

| <b>Export Trade Matrix</b>        |             |        |             |
|-----------------------------------|-------------|--------|-------------|
| <b>Syria (1000 480 lb. Bales)</b> |             |        |             |
| <b>Time Period: CY</b>            |             |        |             |
| <b>Exports for:</b>               | <b>2009</b> |        | <b>2010</b> |
| U.S.                              | 0           | U.S.   | 0           |
| Others                            |             | Others | N.A.        |
| Egypt                             | 119         |        |             |
| Turkey                            | 37          |        |             |
| North Korea                       | 23          |        |             |
| Italy                             | 18          |        |             |
| Bangladesh                        | 16          |        |             |
| Tunisia                           | 14          |        |             |

|                   |     |  |      |
|-------------------|-----|--|------|
| Total for Others  | 227 |  |      |
| Others not Listed | 55  |  |      |
| Grand Total       | 282 |  | N.A. |

Source: For 2009: Foreign Trade Statistics, published by the Central Bureau of Statistics

Syria does not import any cotton lint. The CMO used to export cotton lint in excess of domestic needs. Cotton lint exports ranked third after petroleum and sheep in the past. Cotton lint exports have been declining over the last few years due to the decrease in cotton production and the increase in spinning capacity. Syria's traditional export markets for cotton lint were Turkey, Egypt, Japan, Korea, and China. The marketing season for cotton lint goes as long as 22 months from the beginning of the harvesting season. Syria practically stopped cotton lint exports in 2010 due to the small crop and the need to keep enough lint to run all the spinning factories. If any exports will be reported for 2010, they will be from previous years export contracts.

In 2009, Syria imported 201,255 tons of synthetic yarn and about 6,696 tons of synthetic cloth. Yarn and textile trade statistics for 2010 are not yet available. In 2009, cotton yarn production is reported at 137,010 MT, one percent below the previous year's production. Yarn exports were reported at 60,492 MT in 2009. Small inefficient producers were forced out of business due to high yarn prices and the competition of the imported products, which are better in quality and sell at reasonable prices.

#### **Stocks:**

The Cotton Marketing Organization keeps stocks of cotton lint to run the spinning mills. This way, it was able to provide the spinning mills this year with enough lint when the cotton crop was not big enough to provide for the local spinning capacity. Farmers retain a small portion of the crop for use in local villages or household industries. The Cotton Marketing Organization bought about 93 percent of the 2010-2011 crop; the balance was sold to illegal private ginners. Products from the illegal gins go toward the local production of mattresses and pillows. Some press reports talked about cotton smuggling to neighboring Turkey where prices of cotton exceed local procurement prices by about 30 percent.

#### **Policy:**

The Cotton Marketing Organization and the Cotton Bureau plan to produce enough cotton to provide cotton lint for the spinning industry as well as other minor industries that need cotton as a raw material. Any excess to that will not help the Syrian economy since cotton production needs a lot of water and irrigation water availability is a problem.

Syria does not currently import any cotton lint and does not intend to produce extra long staple cotton in the foreseeable future. If the cotton planted areas continue to decrease due to price factors, Syria may permit imports of cotton lint to run its spinning mills and textile factories.

According to the new customs tariff issued on July 1, 2006, customs duties on cotton yarn are set at one, ten, and 15 percent depending on the quality of the yarn. Customs duties on cotton textiles are a flat rate of 15 percent. Customs duties on synthetic fiber are set at 1-10 percent while duties are set at 10-15 percent on textiles made from synthetic fibers.

#### **Marketing:**

The CMO monopolizes local seed cotton procurement and ginning. This organization also handles the domestic and export marketing of Syria's cotton lint (if there is a surplus).

Marketing used to be through by trade delegations sent at the beginning of the marketing season to Syria's traditional export markets. The CMO also maintains agents abroad.

With the price development for production requirements and the pricing policy set by the government for cotton and other crops that compete for irrigated areas, it will not be surprising if cotton lint exports completely cease in the future.

### Production, Supply and Demand Data Statistics:

| Cotton Syria         | 2009/2010                   |          | 2010/2011                   |          | 2011/2012                   |          |
|----------------------|-----------------------------|----------|-----------------------------|----------|-----------------------------|----------|
|                      | Market Year Begin: Aug 2009 |          | Market Year Begin: Aug 2010 |          | Market Year Begin: Aug 2011 |          |
|                      | USDA Official               | New Post | USDA Official               | New Post | USDA Official               | New Post |
| Area Planted         | 0                           | 0        | 0                           | 0        |                             | 0        |
| Area Harvested       | 165                         | 165      | 150                         | 125      |                             | 150      |
| Beginning Stocks     | 204                         | 204      | 179                         | 211      |                             | 121      |
| Production           | 1,000                       | 1,032    | 750                         | 735      |                             | 890      |
| Imports              | 0                           | 0        | 0                           | 0        |                             | 0        |
| MY Imports from U.S. | 0                           | 0        | 0                           | 0        |                             | 0        |
| Total Supply         | 1,204                       | 1,236    | 929                         | 946      |                             | 1,011    |
| Exports              | 200                         | 200      | 75                          | 0        |                             | 0        |
| Use                  | 825                         | 825      | 725                         | 825      |                             | 825      |
| Loss                 | 0                           | 0        | 0                           | 0        |                             | 0        |
| Total Dom. Cons.     | 825                         | 825      | 725                         | 825      |                             | 825      |
| Ending Stocks        | 179                         | 211      | 129                         | 121      |                             | 186      |
| Total Distribution   | 1,204                       | 1,236    | 929                         | 946      |                             | 1,011    |
|                      |                             |          |                             |          |                             |          |

1000 HA, 1000 480 lb. Bales